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**REGIONALIZATION, OUTSOURCING AND CONSOLIDATION:
AN ANALYSIS OF NAVY TUG OPERATIONS WITHIN NAVY
REGION SOUTHEAST**

by

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A Research Report Submitted to the Faculty

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Preface

Outsourcing of once exclusively government controlled functions is becoming more and more the norm within the Department of Defense. This paper attempts to examine Navy Region Southeast outsourcing strategy with regard to fleet tug services. Navy Region Southeast was chosen as the example for this discussion due to it's proximity to Air Command and Staff College, it's responsibilities for port operations at six major naval installations and it's staff expertise. Fleet tug support was chosen as the topic of review as it would be the first major port operation function to be consolidated and outsourced within the region. The knowledge gained by incorporating hands-on fleet expertise with basic business practices will set the standard for other outsourcing initiatives.

I would like to acknowledge the efforts of Navy Region Southeast Tug Business Case Analysis Team and specifically LCDR Chris Christoffersen for their help in constructing the needed data required to achieve this analysis. Additionally, I would like to thank my children who were kind enough to give me a few free hours of time each night over the past four months to research and type this report. Many thanks to all.

Abstract

This paper covers both the background of outsourcing and a Business Case Analysis (BCA) conducted within the Fleet Concentration Area (FCA) of Mayport, FL, Kings Bay, GA, and Port Canaveral, FL for Commander, Navy Region Southeast. The analysis describes and evaluates the impact on the fleet mission with regard to outsourcing, consolidation and reorganization of tug service functions.

Privatization, outsourcing, consolidation and reorganization of tug service functions described in this report evaluated cost avoidance over the next two years. The research was conducted via a series of functional studies, Business Case Analysis (BCA) team meetings, Process Action Teams (PAT) and the cooperation of various departments within Navy Region Southeast. The results were a series of consolidation of resources, redefinition of present contracts, the elimination of several present and future contracts, and a major military billet-base reduction. The total cost avoidance by activating these initiatives was over \$3.4 million dollars. This initiative was a clear winner in the financial category. However, it may present future devastating effects on sea-shore rotation and fleet morale due to the loss of military billets to outsourcing.

Part 1

Introduction

This following research study is an attempt to analyze the processes of outsourcing, consolidation and regionalization within the Department of Defense (DoD) and in particular the Department of the Navy (DoN). It is written for the novice reader of this subject. This paper is divided into four chapters; Chapter 1: “Introduction”, Chapter 2: “Where are we going?”, Chapter 3: “How do we get there?”, and Chapter 4: “Conclusions and Recommendations”.

Chapter 2: “Where are we going?” is an overview of the process of outsourcing and privatization. It takes the reader through a tour of information required to make heads or tails out of this complex issue. Several key concepts are introduced to include the definitions of outsourcing and contracting out, why private industry is suspicious of franchise funds; entrepreneurial government and “tooth” and “tail” competition for scarce funds. This section gives the reader a basic foundation to take to Chapter 3: “How do we get there?”

Chapter 3: “How do we get there?” narrows the focus of outsourcing and consolidation to the Navy perspective. The Navy Infrastructure Reduction Plan is introduced as well as the concept of Regionalization, specifically the Regionalization of the Southeast United States. The paper addresses one case study on tug outsourcing and consolidation within the area of responsibility of Navy Region Southeast, introduces the concept of a Business Case Analysis (BCA) team and summarized the data collected from that study.

The final chapter of the paper, Chapter 4: “Recommendations and Conclusions”, combines the elements of Chapters 2 and Chapter 3 to give a personal perspective on the topic of Regionalization, outsourcing, and consolidation.

Part 2

Where are We Going?

Privatization and outsourcing are the new buzzwords for rescuing DoD budget shortfalls. The thought behind this agenda filters those positions that are inherently military and identifies those positions that can be contracted through the private sector. By instituting this philosophy, it is projected that DoD not only can significantly lower the ceiling on spending but also direct scarce budget dollars to their core mission rather than the infrastructure that supports it. However, as sound as this agenda may appear, privatizing and outsourcing functions that were once exclusively performed by military manpower, have come under intense scrutiny and skepticism. This debate still continues.

Wallace Keene, in his articles *Federal Outsourcing, Parts I and II*, discusses how outsourcing is defined and identifies four myths associated with this function. Keene takes the position that successful outsourcing can only be achieved if the governmental agency requesting the work retains responsibility for the function or activity performed. In other words the government holds control of the function¹. On the other hand, privatization of a function or activity shifts the responsibility to the private sector. Control is no longer managed by the governmental agency. Therefore, it is inherent that mission functions or activities earmarked for privatization are examined carefully, as control will be lost. Keene's conclusions on outsourcing

are further explained in what he describes as four myths that affect the future of governmental outsourcing.

The first myth determines that outsourcing does not equal contracting out. As with privatization, there is a determining factor between the two terms. In this case it is the manner in which the work is structured. Contracting out is tied to a per diem rate, getting paid no matter what the results. Outsourcing combines incentives to the equation.² Thus, timely results, superior performance or quality labor is valued and compensated.

Myth two states that entrepreneurial government equals bigger government. Most critics equate entrepreneurialism to large expansive enterprises. However, this concept does not necessarily hold true with government agencies. Entrepreneurial government factors in methods of reinventing procedures as well as the manner in which these procedures are accomplished. It considers “work smarter” concepts into the everyday environment of meeting the complexities of a mission. As an example, the Navy incorporates Reinvention Labs into their command structure. The bottom line is, if law does not mandate a regulation and there is a better, cheaper and more effective way to accomplish a task, the Regional Commander can override the regulation. This philosophy falls directly in line with the National Partnership for Reinventing Government (NPR) concepts of replacing regulations with incentives, injecting competition into everything, searching for market not administrative solutions and measuring success by customer satisfaction.³

Myth three states that federal franchise funds will negatively effect the private sector. Federal franchising was set up to help reduce administrative overhead positions in government by allowing agencies to outsource functions or activities to other agencies. The retained earnings gained by interagency outsourcing could then be carried over to the next fiscal year for

modernization or capitol investments. Private sector balked at such an idea stating competitive bids by government agencies did not allow for a level playing field. However, in 1997, ICEMAN (name given to the \$249 million contract awarded by the Federal Aviation Administration to United States Department of Agriculture's (USDA) Kansas City data processing center) cleared the way for future agency outsourcing. ICEMAN used A-76 costing practices to get the award. This process involved the "...developing of an estimate of the cost of government performance of a commercial activity and comparing it...to the cost to the government for contract performance of the activity."⁴ By doing so there were no contested costs or appeals from the public sector.⁵ Nevertheless, there is still a great deal of skepticism concerning how agencies factor actual costs and overhead in the bid process. Additionally, obstacles in the bidding process and legislation preclude fair competition.

Keene's last myth dismissed the notion that there is no level playing field between governmental agencies and private industry when it comes to bid awards.⁶ Again, ICEMAN is cited as evidence to this claim. However, Michele Celanier's article, *Catch-23*, clearly identifies that discrepancies do exist. As example, government agency bids can exclude senior executive salaries and overhead costs. Rules also say government entities can win bids even if they are ten percent higher than the commercial competitor. The current rule on contract awards requires industry to come in at least ten percent below those of government agencies to get contract award. It is estimated that 70 percent of the annual budget of DoD (\$172 billion) goes into the infrastructure of non-core functions yet private industry accounts for only about \$37 billion of that figure through outsourcing.⁷ ICEMAN or not, there is clear indication that the bidding process requires additional reform to "level the playing field" on bid awards.

Many DoD planners argue, good or not, that outsourcing internal functions was just too risky in times of war or conflict. However, budgetary constraints and pressures are driving restructuring of internal business practices. Loren Thompson writes in her article, *Defense Outsourcing: The Coming Evolution*, that private sector experience indicates a savings of 10 – 30 percent when support functions are outsourced. Targeting one half of DoD’s support budget and using the mid-range of 20 percent, an annual \$12-16 billion in cost savings could be realized. However, for the government to achieve such statistics a revolutionary change in strategy and planning would need to occur. In 1997, according to Thompson, “nearly half of the Air Force’s active duty headcount – 194,000 out of 390,000 personnel – were engaged in the provision of services readily available from the more cost-effective private-sector sources.”⁸ For the Navy during that period, Thompson writes, “one out of eleven admirals is involved in healthcare.”⁹ Healthcare, logistics and information technology (IT) are seen as three prime areas where DoD can use outsourcing as a successful tool.

The area of IT currently is one of the most active sources for outsourcing. Brian Friel’s article, *Privatization on a Roll*, points to three major pitfalls and challenges that should be avoided when reviewing privatization and outsourcing initiatives. The first roadblock is political opposition. Political pressures and sensitivities are very active and robust. The second challenge addresses poor contract administration. Clear, concise language in contract development and vigorous contract administration is needed to avoid misunderstandings between the agency and the contractor. Misleading performance standards also adds to the confusion.¹⁰ Again, as in contract administration, clear language can avoid any ambiguous evaluations. Foresight, with respect to these challenges, is the key to successful transition to privatization and outsourcing.

In an earlier article by Friel, *CEOs Call for DoD Privatization*, he refers to the “tooth” and “tail” of DoD. The “tooth” refers to the core-fighting abilities of the military where the tail refers to the functions needed to support the mission. With budget cuts, the “tooth” is becoming lean. However, according to Friel, the “tail” remains too big and bureaucratic.¹¹ It is easy to identify functions and activities that have outsourcing potential. However, the execution of an outsourcing plan is extremely difficult. Additionally, defense leaders have yet to link “time with money.” This practice is a core business principle, one that drives the private sector’s bottom line.

Jacques Gansler, Under Secretary of Defense for Acquisition and Technology, has set major goals and has clear ideas on the manner in which DoD can operate more efficiently. Allen Burman’s article, *Directions for Defense*, comments on key points regarding the Under Secretary’s philosophy. Gansler has three basic points that are required to make inroads in DoD business reform. The first point is to bring government and industry closer together through partnering. The second point requires the adoption of vigorous “just-in-time” support functions where the supply distribution is reduced from 36 days to four or five days. Gansler’s final point addresses business reform through competitive outsourcing.¹² Yet another attempt to get fair cost comparisons between government employees performing a function or activity vice commercial contractors. “The key to doing all these things successfully,” states Gansler, “is education, career development and training of the acquisition workforce.”¹³ However, it would be short-sighted to address simply the fiscal side of this complex equation. Financial bottom lines must be balanced with mission requirements and mission requirements must be balanced with the instruments of power required for military involvement in global conflict.

With the Pentagon under major scrutiny to cut its budget and reform its business practices, there is fear that political pressure may be so great that DoD will contract out core functions to meet the savings target. Katherine McIntire Peters, in her article, *Down to the Core and Congress, DoD at Odds over Savings from Privatization*, identifies an estimated DoD funding shortfall of \$20 billion a year for the next several years. This has driven a review of nearly 230,000 jobs, most of them civilian, to be converted to the private sector for outsourcing. Pentagon officials believe that through outsourcing DoD can save eleven billion dollars by 2005 and achieve reoccurring annual savings of more than three billion dollars every year thereafter.¹⁴ Government auditors claim a major flaw with this philosophy is that estimates are significantly overstated.¹⁵ If savings fall short, DoD will be forced to take money out of its operational budget. This will ultimately force more unfunded requirements, reduce the “tooth” dollars even more and widen the budget reform gap.

According to Peters, a chief complaint by industry is that government does not measure costs accurately. Measuring overhead is a prime example. The government estimates that its overhead is twelve percent of the workforce costs.¹⁶ There are challenges in the private sector that claim that this estimate is far too low. Because of poor financial management it is extremely difficult to calculate exact or near exact costs. Credible private sector competitors will be reluctant to bid on contracts that they consider to be unattainable. This could and had led DoD unable to attract qualified bidders who can compete for functions or activities now being performed by a government entity.

Competitive outsourcing is not the magic bullet for DoD. There are many factors that require careful oversight. As said earlier, political opposition, poor contract administration, and misleading performance measures are issues that will require attention and maintenance

throughout all levels of management within DoD. Myths must be dispelled and managers on both sides of the outsourcing position must look at the best business practices for the good of the organization. Depot level workers believe that contractors “low-bid” to get awards then raise costs once the government competition is eliminated. Contractors argue there are no fair measurements of cost as DoD has a record of poor accounting and business practices. All must come to a middle ground at which managers at every level can factually and fairly evaluate the business process.

The Navy has taken on this challenge of privatization and outsourcing via the path of “Regionalization.” Chapter 3 of this paper discusses the concepts of Regionalization and its impact on the mission of the fleet. Additionally, a BCA on Tug outsourcing and consolidation is addressed and analyzed. Conclusions and recommendations follow the BCA.

Notes

¹ Keene, Wallace, J., “Federal Outsourcing - Part I,” *The Public Manager: The New Bureaucrat*, Vol. 27, Issue 1, (Spring 1998): 13-16.

² Keene, Wallace, J., “Federal Outsourcing - Part II,” *The Public Manager: The New Bureaucrat*, Vol. 27, Issue 2, (Summer 1998): 29-32.

³ Ibid.

⁴ Office of Management and Budget, *Circular No. A-76*, 1996, 2.

⁵ Keene, Wallace, J., “Federal Outsourcing - Part II,” *The Public Manager: The New Bureaucrat*, Vol. 27, Issue 2, (Summer 1998): 29-32.

⁶ Ibid.

⁷ Celarier, Michele, “Catch-23,” *CFO, The Magazine for Senior Executives*, Vol. 14, Issue 6, (June 1998): 50-56.

⁸ Thompson, Loren B., “Defense Outsourcing: The Coming Revolution,” *Seapower*, February 1997, n.p.; on-line, Internet. 16 October 1999, available from http://www.adti.net/html_files/defout/SEAPOWER.html.

⁹ Ibid., http://www.adti.net/html_files/defout/SEAPOWER.html.

¹⁰ Friel, Brian, “CEOs Call for DoD Privatization,” *GovExec*, November 1997, n.p.; on-line, Internet, 7 October 1999, available from <http://www.govexec.com/dailyfed/1197/110597b1.htm>.

¹¹ Freil, Brian, “Report: Privatization on a Roll,” *GovExec*, May 1999, n.p.; on-line, Internet, 7 October 1999, available from <http://www.govexec.com/dailyfed/0599/52599b1.htm>.

¹² Burman, Allan V., “Directions for Defense,” *GovExec*, January 1999, n.p.; on-line, Internet, 7 October 1999, available from <http://www.govexec.com/procure/articles/0199mark.htm>.

Notes

¹³ Ibid., <http://www.govexec.com/procure/articles/0199mark.htm>.

¹⁴ Peters, Katherine McIntire, "Congress, DoD at Odds Over Savings From Privatization," *National Journal*, Vol. 31, Issue 20, (May 1999), 24-30.

¹⁵ Ibid.

¹⁶ Ibid.

Part 3

How do we get there?

As the personnel structure of the Armed Forces is reduced within DoD, it will be essential for shore-based installations to realign and reorganize to produce effective and efficient organizations. DoN has taken great strides to address this revolution in military affairs (RMA). The Navy Infrastructure Reduction and Business Plan was developed to support infrastructure cost minimization while maximizing available resources. This plan institutes vigorous and ambitious guidelines that will allow the Navy to meet their future challenges.

There are key policy concepts contained in the plan that are vital to the success of the Navy's restructuring process. These concepts form the basic foundations that are required to reshape and streamline navy infrastructure.¹

- * Study all non-core functions for either competitive outsourcing or privatization. Additionally, all core functions will go through a business process reengineering (BPR) to ensure maximum efficiency and savings.

- * Pursue Regionalization and competitive outsourcing concurrently.

- * Achieve a most cost effective and efficient organizations through A76 studies, BPR and other initiatives.

- * No tenant should do what a host should do, no host should do what a complex should do and no complex should do what can be done by private sector more cost-effectively.

* The respective claimant shall retain savings in excess of the “wedge” requirement. The wedge is the distribution of functions and services using non-A76 initiatives, competitive outsourcing and Regionalization consolidation.

* Fund investment costs to support these initiatives.²

Of these six key concepts of the business plan, Regionalization will be the focus of this research and the following case study.

Regionalization takes common support services within a specific geographic area and bundles these services into functional areas. Some functional areas include port operations, air operations, disaster preparedness and safety. By applying best business practices, under the umbrella of common functional support elements, contracts can be combined, funding can be centralized and applying best business practices, under the umbrella of common functional support elements can eliminate redundant services. Additionally, the Navy is looking to the private sector to provide support functions that were previously supplied by DoD personnel. Using the Regionalization concept, the Navy can take advantage of the latest business practices, adapt new technologies to harbor operations and apply sound business management to support its mission.

Commander, Navy Region Southeast, serves as one of three Navy Regional Commanders on the east coast. Each commander sets policy and provides support services to maintain a combat ready force within their area of responsibility (AOR). Under the control of Navy Region Southeast, there are seventeen commands and activities that support operational fleet units within the southeast United States and the Caribbean. The region includes eight states within the continental United States and bases in Puerto Rico and Cuba. Due to the major concentration of fleet forces within the Jacksonville, Florida area, the functional area program manager for

regional of “Port Operations” is supported through Naval Station, Mayport and its commanding officer. The commanding officer reports directly to Commander, Navy Region Southeast as the Program Manager for Port Operations and as Commanding Officer of the Naval Station. One area within port operations that was an ideal candidate for regional consolidation and outsourcing was tug services and contracts. This research focuses on that single element.

Tug services are required to move and support all United States naval vessels, commercial ocean-going vessels, navy barges and service craft (floating cranes, other tugs, fueling barges, etc.) as well as visiting foreign ships at all naval waterfront installations. Traditionally, tugboats have been owned, operated and crewed by naval personnel. In a navy-wide effort to reduce funding costs and consolidate services, an effort is being exercised to replace navy-owned, operated and crewed tugs with commercial tug contract services.

The Navy has designated the southern-most area of Georgia and the northern-most area of Florida as an FCA. Currently, in this FCA, there are several commands that require tug services. They are the Naval Station located in Mayport, Florida, the Submarine Base located in Kings Bay, Georgia, the Marine Corps Blount Island Command located in Jacksonville, Florida, the Naval Fuel Depot located in Jacksonville, Florida, the Atlantic Training Group located at Mayport, Florida and the Naval Ordnance Test Unit located in Port Canaveral, Florida. A study was conducted to analyze across-the-board tug services using the Regionalization concept. The study’s focus was to investigate a single point of contact to control and dispatch tug services throughout the FCA, roll-up existing FCA tug contracts into a single source and assign a single point of contact to administer oversight of the tug contracts within the FCA.

An integrated BCA team consisting of personnel from port operations, budget, manpower, contracting and information technology was assembled to quantify and qualify data that was

collected. Sub-teams, Process Action Teams (PATs) were established to investigate indirect areas relating to tug consolidation and outsourcing, such as tug pilots.

The Business Case Analysis (BCA) Concept

Prior to the official start of the tug study, a team of subject matter experts from each of the potentially effected organizations was assembled to discuss the concept of tug consolidation, outsourcing and contract roll-ups. This was a critical step taken during the process. By electing to bring in the effected parties to review and comment on the upcoming study, a “buy-in” by each organization was achieved. This “buy-in” allowed for a smooth flow of information and data critical to the support of the study. Organizations then selected personnel to represent their interests on the BCA team. This team met weekly for approximately four months.

Studies were conducted to evaluate the types of functions, services and contracts with respect to tug functions that were currently in place within the FCA. This information was gathered through meetings, phone interviews, past evaluations and studies and first-hand personal information. Additionally, data was collected from other department within each organization of evaluate such issues as manpower and equipment availability. The Regional Resource Management department played an important role in the evaluation of manpower management, wages scales and civilian employee descriptions. Additionally, labor unions were invited to participate in the study.

Upon completion of the data collection the group met weekly to discuss and evaluate the data as well as to present in clear terms the current “As-Is” condition. An accurate portrait of the “As-Is” condition was critical to the study. It would form the basic building block for the “To-Be” organization.

The “As-Is”/”To-Be” organizations were developed using Navy Military Composite Standard Pay and Reimbursement Rates, the United States Office of Personnel Management General Schedule Locality Rate of Pay and published projected inflation rates for salaries, services and fuel. The timeline was projected through Fiscal Year 2001 (FY 01). Each year costs were evaluated within the “As-Is” and “To-Be” criteria to predict cost projections over a two year period.

In addition to cost comparisons, data on services performed was also collected. Infrastructure availability, annual tug moves and fuel costs were factored into the analysis process. This data collection of data served two purposes. The primary purpose was to enhance the tug study. The second purpose served as a stepping stone for future development of Statements of Work used in outsourcing services. By collecting service data early, there would be little or no delay in contract preparation. This would allow for a timely turn-around process if new Requests for Proposals (RFP) were offered to the private sector.

Case Study: Tug Consolidation and Outsourcing

There are two purposes for this study. The first purpose is to establish the most efficient organization (MEO) that will provide quality tug service within the FCA of Navy Region Southeast. The second purpose is to identify those areas where cost reductions and process improvements can be enabled through consolidation of tug services within the FCA of Navy Region Southeast.³

The objective of the BCA team was to collect data within the data with regard to tug operations within the FCA, analyze that data, and present a clear, concise evaluation of what would be called the “As-Is” operation and the future “To-Be” operation.

Current Concept of Operations (“As-Is”)

The information supplied below represented the current concept of operations or the “As-Is” operations of each of the organizations involved in the study.

Naval Station, Mayport, Florida has two Time Chartered (TC) contracts for three tugs. TC contracts supply service 24 hours a day with different daily rates based on response time required. The three tugs averaged approximately 1,748 ship moves per year and 70 Brief Stops for Passengers (BSP) annually. The Surface Coordinator in Harbor Operations (civilian GS-12) does the dispatching of the tugs. Dispatch is based on a weekly scheduling conference attended by various commands within the basin of Naval Station, Mayport. Naval Station Mayport has one primary and one alternate Contracting Officer Representative (COR) to monitor two contracts. A COR is a command representative who administers oversight to the an issued contract to ensure the contractor meets the stated requirements. Naval Station, Mayport purchases fuel for the contract tugs through local vendors.⁴

Naval Submarine Base Kings Bay, Georgia has one TC contract for four tugs. The four tugs average 871 ship moves and 207 BSPs annually. Port operations at Kings Bay do not dispatch tugs. Dispatch is based upon weekly scheduling meetings conducted with local submarine commands. Kings Bay has a primary and alternate COR to monitor the tug contract. Fuel for the contract is purchased through the Defense Fuel Supply Point (DFSP).⁵

The United States Marine Corps Blount Island Command (BIC) and the Navy Fuel Depot contract Spot Hire (SH) tug services through the Military Sealift Command (MSC) representative co-located at Blount Island. SH hire services are services that are dispatched on a job-by-job or day-by-day basis. These contracts can be both extremely costly and difficult to manage. The Navy Fuel Depot averages approximately ten ship arrivals annually. Each ship requires the use of at least three tugs for the purposes of docking and undocking. BIC averages

approximately 20 ship arrivals annually for docking and undocking as well as a tug to be used as escort and a standby tug (per Coast Guard regulations) when loading and unloading ammunition.⁶

The Afloat Training Group (ATG) has an Indefinite Delivery Indefinite Quantity (IDIQ) contract for one tug. The contract is monitored by a primary and secondary COR. The COR does the planning and scheduled usage for all tug requirements. Fuel for the TC contract is not purchased by ATG.⁷

There is a shared IDIQ contract between Naval Ordnance Test Unit (NOTU) and MSC. This contract offers two tugs and one Personnel Transfer Boat (PTB) for service. Both the tug and PTB average approximately 250 ship moves and approximately 80 BSPs annually. NOTU has a primary and secondary COR who both monitor the contract and dispatch tugs through the Port Operations department. Fuel is not purchased by NOTU for the contract tugs.⁸

Proposed Future Concept of Operations (“To-Be”)

After assessing the “As-Is” tug operations it was clear that there were four common factors between the command within the FCA. These were the dispatching and scheduling of tugs, primary and secondary CORs, similar tug contracts and fuel expenditures. The “To-Be” operation would be based on the consolidation of these common functions. Regionalizing these functions would not only eliminate redundancy but also lead to its MEO. This action would establish a Regional FCA Tug Scheduler and an FCA COR, consolidate all like tug contracts and purchase fuel for all contracts through local vendors. The following summarizes each area:⁹

Regional FCA Tug Scheduler. The scheduling of all tug requirements within the FCA would be accomplished through a single source. Due to the volume of movements at Naval Station, Mayport, it was determined that this function should be administered through the

Surface Coordinator at Port Operations in Mayport. Kings Bay, Mayport and NOTU would continue to address their tug requirements through weekly scheduling conferences. However, all operational tug requirements would then be forwarded to the Regional FCA Scheduler for action. Forwarding all tug requests through the Regional FCA Scheduler will increase the effectiveness and efficiency of tug allocation. Use of this method will eliminate the need for costly SH tugs at BIC and the Navy Fuel Depot as the scheduler will have a broad picture of the assets available. In addition to daily scheduling the Regional FCA will also be responsible for the upkeep of tug historic records and all long-range tasking requirements by BIC, the Navy Fuel Depot and ATG. NOTU, due to distance and time constraints, will not participate in regional tug scheduling.

Regional Fleet Concentration Contracting Officer's Representative. Consolidate all primary and secondary CORs into a single Regional COR for tug contracts within the FCA. The Assistant Port Operations Officer at SUBASE King's Bay was identified to assume this responsibility. The Regional FCA COR will monitor all tug contracts to ensure proper service is provided by the contractors.

Consolidate all like tug contracts. There are three existing TC contracts within the FCA. These can be consolidated into one reducing contract maintenance, eliminating redundancy and reducing the time needed to process three contracts. A single contract for seven tugs and one PTB will be required for service needed at Mayport, Kings Bay, BIC and the Navy Fuel Depot. To achieve this goal, an extension of contracts will be necessary to achieve a synchronized timeline when all requirements can be sourced to a single contractor. NOTU currently has an IDIQ contract that will expire in seventeen months. At the twelve-month point, a new RFP will be announced for nine tugs and one PTB. This will then add NOTU to the scope of the Regional FCA.

Purchase fuel for the contract tugs through local vendors. During FY 98 the dollar figure spent on fuel for seven tugs in Kings Bay and Mayport amounted to approximately \$454,000. Diesel fuel prices from local vendors is approximately \$.64 per gallon. The local Defense Fuel Supply Program negotiated fuel prices on an annual basis with vendors to be purchased by DoD sources. The advantage to this method is that as fuel prices escalate the price is fixed. However if fuel prices drop the price is still fixed at \$.80 per gallon. History has shown that local fuel markets fluctuate with prices dropping as low as \$.44 cents a gallon. Therefore, it was recommended that fuel be purchased from local vendors vice the local Naval Fuel Depot.¹⁰

Finally, to link essential communication between commands and streamline the flow of information all port operations will require standardize equipment. To meet this requirement, the following equipment has been identified as the minimum necessary to support waterfront operations:¹¹

200mhz (or greater) CPU with 512 cache

17" monitor

64mb (or greater) RAM

10/100 PCI Network Interface Card

PC card reader

Speakers

3.5-1.44 floppy disk drive with IDE connectivity

Internet/LAN/WAN/connectivity

NT4.0 Operating System

The cost comparison data illustrated in Table 1 was compiled from actual operating costs from the port operations department as well as the input from the comptroller on payroll.

Summary figures are shown in “As-Is” and “To-Be” comparison. Calculations were derived from the following information:

Labor costs were increased at the rate of 3.1 percent for FY99 and at the rate of 3.0 percent for FY00/01. The Defense Finance and Accounting System costs (DFAS) per employee per year were increased by 2.0 percent for FY99 and 2.1 percent for FY01.¹² Civilian salaries were fringed by 32.45 and indirect costs were calculated at 12 percent of the fringed civilian salaries. Additionally, civilian salaries were rated at Step 5 for General Schedule (GS) employees and Step 4 for Wage Grade (WG) employees.¹³ Military salaries were calculated using the Military Composite Rate.¹⁴

Table 1 “As Is” to “To Be” Cost Comparison

"As Is" to "To Be" Cost Comparisons					
	FY98	FY99	FY00	FY01	TOTAL
SUBASE KINGS BAY “AS IS”	\$3,886,889	\$4,437,060	\$4,547,985	\$4,664,718	\$17,536,652
NAVSTA MAYPORT “AS IS”	\$2,632,846	\$2,907,930	\$2,979,253	\$3,054,366	\$11,574,395
NAVY FUEL DEPOT ‘AS IS’	\$216,000	\$216,000	\$237,000	\$271,000	\$940,000
NOTU ‘AS IS’	\$845,393	\$849,009	\$889,619	\$932,308	\$3,516,329
ATG ‘AS IS’	\$183,393	\$187,009	\$189,619	\$192,308	\$752,329
BIC ‘AS IS’	\$1,263,989	\$1,267,863	\$1,410,729	\$1,478,711	\$5,421,292
TOTAL “AS IS”	\$9,028,510	\$9,864,871	\$10,254,205	\$10,593,411	\$39,740,997
SUBASE KINGS BAY “TO BE”	\$3,886,889	\$4,437,060	\$4,484,985	\$4,597,718	\$17,406,652
NAVSTA MAYPORT “TO BE”	\$2,632,846	\$2,847,930	\$2,866,697	\$2,937,453	\$11,284,926
NAVY FUEL DEPOT ‘TO BE’	\$216,000	\$216,000	\$22,500	\$22,995	\$477,495
NOTU ‘TO BE’	\$845,393	\$849,009	\$889,619	\$932,308	\$3,516,329
ATG ‘TO BE’	\$183,393	\$187,009	\$164,619	\$147,308	\$682,329
BIC ‘TO BE’	\$1,263,989	\$1,267,863	\$179,729	\$184,745	\$2,896,326
TOTAL “TO BE”	\$9,028,510	\$9,804,871	\$8,608,149	\$8,822,527	\$36,264,057
NET DIFFERENCE	\$0	\$60,000	\$1,646,056	\$1,770,884	\$3,476,940

Source: Commander, Navy Region Southeast, “Business Case Analysis, Tug Services”, July 1999, 6.

Notes

¹ Department of the Navy, *Navy Infrastructure Reduction Business Plan*, 1-10.

² Ibid.

³ Department of the Navy, *Commander, Navy Region Southeast: Business Case Analysis, Tug Services*,” July 1999.

⁴ Ibid.

Notes

⁵ Ibid.

⁶ Ibid.

⁷ Ibid.

⁸ Ibid.

⁹ Ibid.

¹⁰ Ibid.

¹¹ Ibid.

¹² Message. 191437Z APR 99. US Navy. To competitive sourcing/commercial activities points of contact, 19 April 1999.

¹³ United States Office of Personnel Management *General Schedule Locality Rates of Pay*, 1999.

¹⁴ Department of the Navy, *Navy Military Composite Standard Pay and Reimbursement Rates*, 1998.

Part 4

Conclusions and Recommendations

There are three basic trends that can be sited from this study: the good, the bad and the ugly. The good is an appropriate place to start. The ugly is an appropriate place to end.

The study showed a cost avoidance of approximately \$3.4 million over a two-year period. This was slightly under the estimated ten percent savings initially anticipated. However, as Table 1. indicates, there appears to be incremental savings in the out years. The cost savings were nearly triple the first year but waned later. The largest cost saving ratio impact was seen from the consolidation of tug services at the Naval Fuel Depot, reducing costs from \$216, 000 to \$22,000 in just one year. BIC will also gain substantial benefits from tug consolidation. Their cost were slashed by approximately \$2.6 million.

This study was able to produce several cost saving measures by simply adjusting the process by which tug operations were administered. These are mostly administrative fixes that either involved time or a shuffling of funds from one code to another. They are as follows:

- * Elimination of SH tugs for the docking of MSC ships at BIC.
- * Elimination of SH tugs for the docking of MSC contract ships at the Naval Fuel Depot.
- * Reduction or elimination of the IDIQ tug contract for ATG.
- * Consolidation of all three TC contracts within the FCA into one standard contract.
- * Purchase fuel at the lowest market price vice solely from a government source.

* Transition the IDIQ contract at NOTU to a Call Out and incorporate it into the FCA within 17 months.

Another “good” coming from the study was that it got interested parties together to work as a team and come up with sound solutions. The BCA for Tug Services set the standard for other more involved studies to come such as, Oil Spill Response and Floating Crane Services. It also instilled the confidence in senior management that BCA teams, given the proper tools and appropriate authority, can and do work for the better of the command.

The bad part of the study involved data collection, distribution and evaluation. Due to the fact that the BCA for tug services was the test platform for others to come, there appeared to be a glorifying of results. As pointed out earlier in Part I by Peters, there is skepticism about the true costs of services or responsibilities. As an example, the function of the COR is not a full time position. It is assumed as a collateral duty. That billet, whether responsible for COR duties or not, still exists. A downgrade of the positions would be highly unlikely. Another flaw with the study is that there was no honest broker to review the plan. Although consolidation of tug services and responsibilities within the region was agreed upon, actual civilian billet reduction as well as overhead costs was not fully addressed.

Further, the plan does not fall into place with the concept of franchise funding. A closer look at the study reveals the surprising factor that the two largest users of tug services did not see much gain by consolidation. SUBASE Kings Bay and Naval Station Mayport together captured less than \$400,000 within the two-year period. NOTU did not see any cost avoidance. Basically, the plans called for Mayport and Kings Bay to pick up the work for AIG, BIC and the Navy Fuel Depot without charging them for the service. Further, the saving gathered by BIC, which is the bulk of the cost avoidance, is a saving for the Marine Corps vice the Navy. The guidance given

to commands via the Navy Business Plan on debt reduction has its roots in Navy debt reduction vice other service debt reduction. Clearly this is a savings for DoD vice the Navy and that concept was not specifically addressed in the study. Also, implementation was to be started in October/November 1999. Slight modifications were made regarding services. However the timeline and cost avoidance must be adjusted to compensate for delay. Savings once initially forecasted for the out years may be absorbed by inflation or contractor rate increases. In addition to the question of actual cost avoidance, other more threatening issue comes to the forefront on tug consolidation and outsourcing. Those issues deal with Navy sea-shore rotation and retention. This is the ugly trend.

It is the nature of service that the Navy that dictates its members man ships and deploy on a regular basis. Exceptions to this rule are few. Therefore, it is imperative for members who complete their sea tour obtain assignments ashore where they can continue to train to keep their skills current. This “shore” duty also enables the member to seek education advancing to a degree well as enjoy the time home with family and friends. Ratings such as Yeoman or Storekeeper are easily converted to administrative office functions at almost any command. However, the intense sea support rating such as Machinist Mate or Engineman are not so easily converted. These rates require industrial and waterfront environments to remain current and knowledgeable. Commands suited for shore rotation of these ratings are those most commonly earmarked for outsourcing. Many have been already converted. Case in point is the Ship Intermediate Maintenance Activity (SIMA) in Hawaii. The command converted and outsourced approximately 500 positions commonly filled by military sea intensive ratings. Originally, this conversion was thought to have saved DoD millions of dollars. However, members with few shore opportunities available upon transfer from sea duty have opted to leave the naval service

rather than go back to sea. Thus, retention and fleet morale issues are now at the forefront of concern.

Such is a similar case with tug consolidation and outsourcing. Contractors and civilian conversion of these positions make it extremely difficult for sea-shore rotation of sea intensive ratings. Tugs, once operated and maintained by Quartermasters and Enginemen have all but disappeared. The Navy is realizing that incentives other than financial gain are necessary to maintain fleet readiness. The financial benefits gained by outsourcing are replaced by military manning issues and recruiting concerns.

The argument of evaporating military billets is not solely unique to the Navy but by far the Navy, due to its operational tempo, has been acutely impacted. Critical operational tempo must be maintained to support the Navy's strategic objectives of power projection, forward presence, strategic deterrence, sea control and maritime supremacy and strategic sealift. However, without proper personnel maintenance these objectives will be difficult if not impossible to attain. DoD, and in particular the Navy, needs to weigh the impact of consolidation, privatization and outsourcing and come to a middle ground which will support both the goals of National Security Strategy as well as infrastructure reduction. Money may be the bottom line, but as we are realizing, it is not always the solution.

Glossary

AOR	Area of responsibility
ATG	Afloat Training Group
BCA	Business Case Analysis
BIC	Blount Island Command
BPR	Business Process Reengineering
BSP	Brief Stop For Passengers
COR	Contracting Officers Representative
DFAS	Defense Finance and Accounting System
DFSP	Defense Fuel Supply Point
DoD	Department of Defense
DoN	Department of the Navy
FCA	Fleet Concentration Area
GS	General Schedule
IDIQ	Indefinite Delivery Indefinite Quantity
IT	Information Technology
MEO	Most Efficient Organization
MOA	Memorandum of Agreement
MSC	Military Sealift Command
NAVSTA	Naval Station
NOTU	Naval Ordnance Test Unit
NRP	National Partnership for Reinventing Government
PAT	Process Action Team
PTB	Personnel Transfer Boat
PTV	Pilot Transfer Vessel
RC	Requirements Contract
RMA	Revolution in Military Affairs
SH	Spot Hire
SIMA	Ship Intermediate Maintenance Activity
SUBASE	Submarine Base
RFP	Request For Proposal
TC	Time Charter
USDA	United States Department of Agriculture
WG	Wage Grade

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